

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
The Detroit Edison Company for)
Reconciliation of its Revenue)
Decoupling Mechanism for the)
Period February 1, 2010 through)
January 31, 2011.)

Case No. U-16780

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above matter on February 6, 2012.

Exceptions, if any, must be filed with the Michigan Public Service Commission, P.O. Box 30221, 6545 Mercantile Way, Lansing, Michigan 48909, and served on all other parties of record on or before February 27, 2012, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before March 12, 2012. **The Commission has selected this case for participation in its Paperless Electronic Filings Program. No paper documents will be required to be filed in this case.**

At the expiration of the period for filing exceptions, an Order of the Commission will be issued in conformity with the attached Proposal for Decision and will become effective unless exceptions are filed seasonably or unless the Proposal for Decision is reviewed by action of the Commission. To be seasonably filed, exceptions must reach the Commission on or before the date they are due.

MICHIGAN ADMINISTRATIVE HEARING
SYSTEM
For the Michigan Public Service Commission

Sharon L. Feldman
Administrative Law Judge

February 6, 2012
Lansing, Michigan

STATE OF MICHIGAN
MICHIGAN ADMINISTRATIVE HEARING SYSTEM
FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

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PROPOSAL FOR DECISION

I.

PROCEDURAL HISTORY

This Proposal for Decision addresses The Detroit Edison Company's May 2, 2011 filing for the reconciliation of its Revenue Decoupling Mechanism (RDM) for the year ended January 31, 2011. The company's application was accompanied by the prefiled direct testimony and exhibits of witnesses Barbara J. Tuckfield, Kelly A. Holmes, and Dan M. Stanczak.

At the July 14, 2011 prehearing conference, the company and Staff appeared, and ABATE appeared and was granted intervention. Energy Michigan was also granted intervention without appearing, by consent of the parties. Following the schedule established at the prehearing conference, on September 13, 2011, Staff filed the testimony and exhibits of Nicholas M. Revere, and ABATE filed the testimony and exhibits of James T. Selecky. Also in accordance with the established schedule, on

October 5, 2011, Detroit Edison filed the rebuttal testimony and exhibits of Ms. Tuckfield, Ms. Holmes and Mr. Stanczak.

At the November 2, 2011 evidentiary hearing, the testimony and exhibits of all witnesses were bound into the record by agreement of the parties, without the need for the witnesses to appear. The parties filed briefs on December 6 and reply briefs on December 20, 2011.¹

The evidentiary record is contained in 124 pages of transcribed testimony and 23 exhibits. In their various proposals for reconciling the revenue decoupling mechanism, the parties disagree on the revenues subject to reconciliation, the groupings of customers for purposes of applying the revenue decoupling mechanism, and how the calculation should be performed for each group of customers subject to the mechanism. The record and the positions of the parties are discussed in more detail below.

II.

OVERVIEW OF THE RECORD AND POSITIONS OF THE PARTIES

In this section, the testimony presented by the parties is reviewed, including Detroit Edison's direct case, the presentations of ABATE and Staff, and the company's rebuttal presentation.

¹ ABATE filed only an initial brief.
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Detroit Edison

Detroit Edison's filing proposed to refund the net amount of \$55.8 million, comprised of a \$57.9 million credit to the residential class, a \$2.7 million surcharge on full service commercial and industrial customers, and a \$0.6 million refund to electric choice customers. The company also proposed to compute the appropriate amount of interest after the issuance of a final Commission order in this proceeding.

Ms. Holmes, Principal Financial Analyst for the Regulatory Affairs area of DTE Energy Corporate Services, LLC, testified regarding the inputs to the RDM reconciliation, and the company's proposed implementation of the resulting credits and surcharges.²

Exhibit A-4 shows the rates and resulting revenues approved in Case No. U-15678. She testified that per instructions from Mr. Stanczak, all full service commercial and industrial customers are treated as a single class.

Ms. Holmes first explained the adjustments made to the "total power supply revenue" approved in Case No. U-15768: the demand charge component is removed; the PSCR base revenue is removed; and the revenue from the Regulatory Asset Recovery Surcharge and the Enhanced Security Surcharge are removed because they have their own reconciliations. The resulting revenue is labeled "new power supply non-fuel energy revenue", which is divided by the rate case sale forecast to determine the power supply non-fuel energy rate per MWh.

² Ms. Holmes's direct testimony is transcribed at 2 Tr 40-51.
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Next, she explained the adjustments made to “distribution revenue”. Fixed-charge revenues consisting of service and demand charge revenues are removed, along with “surcharge revenues” including the Nuclear Decommissioning, Securitization Bond and Tax charges, and the Choice Implementation surcharge. The resulting revenue is labeled “net distribution non-fuel energy revenue”, and is divided by the rate case sales forecast to derive the distribution non-fuel energy rate per MWh used in the reconciliation calculations, Exhibits A-1 through A-3.

Ms. Holmes proposed that the credits and surcharges calculated by Ms. Tuckfield be refunded or recouped for each class over a three-month period, on a bills-rendered basis. Her Exhibit A-5 presents the surcharges and credits that the company is proposing, for a variety of starting months depending on the date of the Commission’s final order in this case. The interest calculation presented in column c of each page of Exhibit A-5 can be advanced to determine interest for subsequent periods, but Ms. Holmes noted that the interest rates presented are forecasts, and should be updated with actual interest rates following the Commission’s final order. Exhibit A-6 presents the tariff sheets that would reflect the billing factors proposed by the company, also subject to update to reflect the correct dates and interest rates. She further explained that the company is proposing that any unrefunded or unrecovered residual balance be rolled into a subsequent reconciliation, or if none occurs, into a PSCR reconciliation.³

Ms. Tuckfield is Manager of Business Performance within the Controller’s Organization of DTE Energy Corporate Services, LLC. She presented the company’s

³ See 2 Tr 50.
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calculations of its per class balances under the RDM adopted in Case No. U-15768.⁴ Her testimony reviews the Commission's January 31, 2011 order.

Ms. Tuckfield used the data provided by Ms. Holmes, including customer counts and sales data, as well as "power supply" and "distribution" revenues, as discussed above.⁵ She testified that to be consistent with the Commission's order in Case No. U-15758, her calculations eliminate the impact of the choice program by assuming that any choice customer changes occurring since the rate case are the result of the migration of customers from full service to the choice program. After adjusting both the rate case sales (in GWh) and customer counts to exclude the reduction in full service sales attributable to choice migration, she used the adjusted rate case numbers to reconcile power supply revenues per customer. Because the Choice Incentive Mechanism (CIM) adopted in Case No. U-15768 reconciles power supply margin changes only, Ms. Tuckfield testified, she used the unadjusted rate case data to reconcile per customer distribution revenue for full service and choice customers. Ms. Tuckfield further testified that she treated choice customers as a separate class for the RDM reconciliation to capture distribution revenue changes due to changes in average use attributable to choice customers.

Ms. Tuckfield presented the company's calculations of the RDM reconciliation for the residential customers in her Exhibit A-1, for the commercial, industrial and "other" customers in her Exhibit A-2, and for the choice customers in Exhibit A-3. To reconcile the RDM for full service customers, she started with usage per customer based on the adjusted rate case data and determined the change in usage per customer by

⁴ Ms. Tuckfield's testimony is transcribed at 2 Tr 19-39.

⁵ See Exhibit A-4.

comparing the adjusted rate case usage to the actual usage for the period. Then, she separately applied the power supply and distribution rates per customer and multiplied each resulting figure by the number of customers to determine the total credit or surcharge before interest.

She broke the full service customers into two groups. For the residential customer group shown in Exhibit A-1, actual usage compared to adjusted rate case usage rose from 7.8 MWh per customer to 8.20 MWh per customer;⁶ using a power supply rate of \$37.63/MWh, a distribution rate of \$41.12/MWh, and an actual customer count of 1,922,579, she computed a total credit to residential customers of \$57,905,174.⁷

The remaining full service customers were grouped together as shown in Exhibit A-2. For these customers, actual average usage increased by 7.10 MWh per customer compared to the adjusted rate case data used to reconcile the power supply costs, but fell 9.12 MWh per customer compared to the unadjusted rate case data used to reconcile the distribution costs. Applying the power supply rate of \$16.58 per MWh and the distribution rate of \$14.42 per MWh to these changes in use per customer, and multiplying each resulting figure by the actual customer counts of 196,931, leads to the total surcharge of \$2,689,979, shown in line 22 of Exhibit A-2.

For the choice customers, reflected in Exhibit A-3, per customer distribution revenues only are reconciled using the RDM. The average usage per customer for this

⁶ For the residential customers, the choice adjustment has no effect on the calculation of the increase in average usage per customer from 7.82 MWh per customer reflected in the rate case to 8.20 MWh per customer over the reconciliation period, as shown in Exhibit A-1.

⁷ Interest for each of the three customer groups was calculated on the average monthly balance using Detroit Edison's incremental short term cost of debt, compounded annually. Interest is calculated through February 2012. See Holmes, 2 Tr 47-50 and Exhibit A-5.

group of customers increased by 1,665.11 MWh per customer, comparing actual usage to the unadjusted rate case assumption. Using distribution rates of \$20.03 per MWh, and an actual increased customer count of 5,521, the resulting credit of \$579,715 is shown in line 16 of Exhibit A-3.

Mr. Stanczak, Director of Regulatory Affairs for DTE, testified to the company's interpretation of the Commission's order in Case No. U-15768, and the company's rationale for the customer groupings described by Ms. Holmes and Ms. Tuckfield.⁸ Mr. Stanczak testified that the RDM pilot has been in operation since February 1, 2010, and that this is the first annual reconciliation. He testified that the company has concluded that the RDM is not well-designed, and is highly sensitive to changes in the number of customers, particularly the commercial and industrial customers:

More specifically, small changes in the number of customers, due to such things as plant closings, customer additions, migration among customer rate schedules, including migration to Electric Choice, and the like, have a huge impact on changes in average use per customer.⁹

To Mr. Stanczak, the significance of basing the RDM on changes in the average use per customer should be to remove the utility's disincentive associated with implementing and operating Energy Optimization programs. He believes the company's RDM would do that, absent changes in customer levels. Nonetheless, he testified that current RDM may not accomplish its intended purpose if the impact of certain changes in customer counts are not appropriately addressed in this reconciliation:

[G]iven the sensitivity to customer counts, Edison's current RDM could result in Edison improperly being required to issue refunds to customers

⁸ Mr. Stanczak's direct testimony is transcribed at 2 Tr 58-66.

⁹ See 2 Tr 63.

even though Edison's EO programs are producing the planned sales reductions, and or even if Edison's sales are declining on an absolute basis. Similarly, the RDM could as likely result in Edison surcharging customers even though its EO programs are not producing the planned energy reductions."¹⁰

Mr. Stanczak reviewed recent changes in the company's customer counts. He testified that since June 2008, over 200 primary rate schedule customers have migrated to secondary rate schedules, and that the customers migrating were generally low-use primary customers, which has had a significant impact on average use per customer for the primary rate schedules.

Based on these changes, Mr. Stanczak recommended that all full service commercial and industrial (or "C&I") customers be treated as one rate class for RDM reconciliation purposes. He testified as follows in support of this recommendation:

In authorizing Edison's RDM, the Commission clearly articulated its desire to align the Company's interests with that of its customers relative to providing cost-effective alternatives to supply side resources. Not neutralizing the impact of C&I customer migration between rate schedules would significantly harm the Company, due to the artificial increase in average use per customer for the Primary and Secondary rate schedules, and therefore, preclude any potential alignment of Company and customer interests relative to energy optimization.¹¹

ABATE

Mr. Selecky, principal in the consulting firm Brubaker & Associates, Inc., testified on behalf of ABATE.¹² He recommended that the Commission reject the company's proposed reconciliation because it excludes revenues related to customer charges and demand charges, also referred to as "fixed-charge revenues". Mr. Selecky testified that

¹⁰ See 2 Tr 64.

¹¹ See 2 Tr 66.

¹² Mr. Selecky's testimony is transcribed at 2 Tr 85-102.

the fixed-charge revenues are “non-fuel revenues” and thus should be subject to reconciliation under the RDM approved in Case No. U-15768. He referred to the calculations presented in Consumers Energy’s pilot decoupling case, Case No. U-16566, indicating that the fixed-charge revenues were not removed from the examples of the non-fuel revenue calculations in that case. Similarly, he referred to the Commission’s findings in Consumers Energy’s electric rate case, Case No. U-15645, in which the Commission developed the decoupling mechanism subsequently approved for Detroit Edison in Case No. U-15768, concluding that Detroit Edison’s exclusion of the fixed-charge revenues is inconsistent with the Commission’s decision in that Consumers Energy case.

Mr. Selecky revised Detroit Edison’s revenue calculations to include the fixed-charge revenues in his Exhibit AB-1, a revision of Detroit Edison’s A-4. The result of his revision is presented in Exhibit AB-2 for residential customers, in Exhibit AB-3 for commercial, industrial and other full service customers, and in Exhibit AB-4 for the Electric Choice distribution customers. By including the fixed-charge revenues in the reconciliation, Mr. Selecky calculates that the residential customers would receive a refund of \$64.3 million, the commercial, industrial and other full service customers would receive a refund of \$7.2 million, and the choice customers would receive a refund of \$806,000, plus interest.

Mr. Selecky also took issue with the company’s proposal to combine all full service commercial and industrial customers as a single class in applying the RDM. Mr. Selecky testified to his opinion that this grouping is inconsistent with the Commission’s decision in Case No. U-15768, and would unjustifiably harm industrial customers.

Exhibit AB-5 presents energy sales data for the combined group and separately for the commercial and industrial classes. This exhibit shows that sales per customer for commercial customers declined by 14 MWh from 2009 to 2010, while industrial sales per customer increased by 1,116 MWh over the same period. Mr. Selecky relied on FERC Form-1 filings for this information, testifying that Detroit Edison responded in discovery that it did not keep separate sales per customer data for the commercial and industrial classes after May 2010. He presented this discovery response as Exhibit AB-6. To Mr. Selecky, it is inappropriate to impose an RDM surcharge on full service industrial customers given the significant increase in sales per customer for the industrial class between 2009 and 2010. He recommends that the \$7.2 million refund for the combined commercial and industrial group, as presented in his Exhibit AB-3, be refunded to the industrial customers.

Staff

Staff presented the testimony of Nicholas M. Revere, Economic Analyst in the Rates and Tariffs section of the Regulated Energy Division.¹³ Mr. Revere presented several calculations designed to show the range of options available to the Commission. His Exhibit S-1 shows Staff's calculation of the non-fuel revenues and rates to be used in the reconciliation. Staff's revenue calculations in Exhibit S-1 follow the company's approach, except that Staff includes the fixed-charge revenues discussed above, and Staff's calculations are presented for Staff's recommended customer groupings. Staff's Exhibit S-2 shows the rates derived from non-fuel revenues excluding the fixed-charge

¹³ Mr. Revere's testimony is transcribed at 2 Tr 105-122.

revenues, corresponding to the company's approach, but using Staff's customer groupings.

Mr. Revere testified that Staff recommends using the following separate classes in the reconciliation: residential, primary, and secondary. He explained that these are the classes used in the cost of service studies, and that these classes reflect significant differences in use per customer.

Mr. Revere testified to Staff's conclusion that the company had not offered evidence to support its claim that customer migration had occurred, or had the impact on use per customer that Mr. Stanczak asserted. Mr. Revere identified reasons why changes in the customer composition of a class could occur, including customers switching from primary to secondary schedules due to increased usage, which would have an offsetting effect to migration from primary to secondary, and new customers entering the system:

Choosing one single reason among the many possible reasons for change in the customer composition of a class as deserving of special treatment is inappropriate in Staff's opinion, especially given the lack of evidence presented to support the Company's assertion.¹⁴

Using three classes as noted above, Staff did not create a separate class for choice customers.¹⁵ Acknowledging that this reconciliation is not intended to compensate the company for customers switching to the Choice program, and accepting the company's method for adjusting the sales and customer data to account for choice migration, Mr. Revere testified that the company's adjustment does not completely eliminate the effects choice migration: "If a non-fuel rate for the entire class

¹⁴ See 2 Tr 111.

¹⁵ See 2 Tr 114-116.

is not used, the Company would still be reimbursed for the distribution revenue lost when customers switched from full-service to choice against the intent of the pilot RDM.”¹⁶

Mr. Revere also testified that Staff recommends excluding Large Customer Contracts from the RDM reconciliation calculations, because these customers pay rates that were not set in the general rate case, and may also be exempt from surcharges. To Staff, it is inappropriate to require other customers to pay charges or receive refunds associated with a change in sales for these LLC customers.

Additionally, Mr. Revere testified that Staff excluded revenues from the “other” customers in the reconciliation. Because the “other” customer revenue reflects the costs associated with lighting equipment supplied by the company, Mr. Revere testified that there is little opportunity for those customers to reduce their usage, and further, that average use per light would be a more appropriate measure of evaluating their Energy Optimization reductions. Mr. Revere testified that Staff’s recommendation in this regard is consistent with Staff’s position in Case No. U-16566, the reconciliation of Consumers Energy’s RDM.

As its final revenue adjustment, Mr. Revere testified that Staff excluded surcharge revenues from the revenue and rate calculations in Exhibit S-1, because surcharge revenues are not part of base rates. Exhibit S-2 contains the revenue calculations with the fixed-charge revenues excluded as Detroit Edison does.

Staff’s Exhibit S-5 presents the reconciliation for each cost-of-service-study class, separately for “power supply” and “distribution” rates, using Staff’s proposed

¹⁶ See 2 Tr 116, citing the Commission’s January 11, 2010 order in Case No. U-15786.
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revenues, and the change in use per customer method used by the company. Staff's Exhibit S-6 presents, for comparison purposes, calculations for the same classes but excluding the fixed-charge revenues excluded by Detroit Edison.

Staff also presented an "average exposure" method as an alternative to the company's "average use" method. In this average exposure method, which Staff prefers to the average-use method, Staff first identifies the change in total sales for each class over the reconciliation period in comparison to the rate case forecast, excluding the effects of Choice migration, and considering distribution sales and revenues separately from power supply sales and revenues. Mr. Revere testified that Staff prefers this method of reconciling per-class sales revenue because the average use per customer is dependent on potentially arbitrary groupings. He also testified that using actual revenue gains and shortfalls would mitigate the company's concerns about the effect of possible migration between secondary and primary rate schedules. For comparison purposes, Exhibit S-4 presents the same calculation, but using revenues excluding fixed charges.

Mr. Revere also presented two additional exhibits for comparison purposes. His Exhibit S-7 uses the company's revenue and average-use method as presented in Exhibits A-1 and A-2, but with Staff's customer groupings. His Exhibit S-8 summarizes the results of the different calculations, including Staff's recommended and average-use method calculations, with and without fixed-charge revenues, as well as the company's proposal and Staff's Exhibit S-7 revision. Total net refunds prior to interest as shown on Exhibit S-8 for Staff's alternative calculations range from \$85.7 million using Staff's average exposure method with fixed-charge revenues excluded, to \$143.2 million using

Staff's average use method with fixed-charge revenues included. Refunds to the residential class range from \$46.3 to \$64.3 million, refunds to the secondary class range from \$32.5 to \$49.8 million, and refunds to the primary class range from \$6.9 million to \$29.1 million.

Mr. Revere also testified that Staff accepts the company's interest calculations. And as to the treatment of any residual amounts not refunded through the initial surcharge and credit, Staff recommends a process for determining "residual refund limits": refunds must continue to be made until the residual refund limit is reached for a class; once the residual refund limit amount is reached, the company may retain the remainder. The residual refund limit for a class is determined by the projected sales volume multiplied by the minimum rate the company's billing system can charge, 0.0001 cents per kWh.¹⁷

Rebuttal

Detroit Edison presented the only rebuttal testimony and exhibits.

Mr. Stanczak testified on rebuttal regarding the appropriate customer classes and revenue to be used in the reconciliation, and in opposition to Staff's preferred RDM method.¹⁸ Regarding the appropriate customer classes, he responded to both Mr. Selecky's and Mr. Revere's testimony.

First, he asserted that "Choice distribution" should remain a separate class for the reconciliation, because full service commercial and industrial customers pay rates

¹⁷ See 2 Tr 120-121.

¹⁸ Mr. Stanczak's rebuttal testimony is transcribed at 2 Tr 67-83.

that include the residential subsidy being phased out through 2013. He testified that treating choice as a separate class thus ensures that revenue changes due to choice migration are addressed only in the CIM reconciliation. He disagreed with Mr. Revere's conclusion that treating choice as a separate class would have the effect of reimbursing the company for lost distribution revenues due to choice migration, asserting that Mr. Revere had failed to support his conclusion and reiterating that the company's calculations instead prevent it from recovering lost distribution revenues from choice migration by using the change in average use per customer method.

He also disagreed that Staff's treatment of commercial and industrial customers as separate classes is appropriate, reiterating his direct testimony that 200 primary customers migrated to secondary rate schedules since the end of the historic test year in Detroit Edison's last rate case. He provided Exhibit A-7 to present additional details related to these customer migrations, and testified that these movements primarily were the result of buildings becoming vacant, load reductions, and reduced operations attributable to the economic downturn.¹⁹ He characterized this as an "unprecedented" customer movement, representing approximately 10% of the D6 and D8 primary class customers.

Mr. Stanczak further disagreed with Staff's proposed exclusion of the "other" customer class, asserting that the lighting customers at issue are able to reduce their energy consumption through the installation of more energy efficient lighting, and that excluding these customers is inconsistent with Staff's proposal to include the fixed-charge revenues in the reconciliation.

¹⁹ See 2 Tr 73.
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As to the revenue to be used in the reconciliation, Mr. Stanczak further supported the company's choice to exclude fixed-charge revenues, citing the Commission's order in Case No. U-15768, and arguing that the fixed-charge revenues should be excluded because the company's EO program would not have been expected to have an impact on demand revenue, at least not in the first year, or on service charge revenue. Mr. Stanczak also asserted that Staff had taken a contrary position in the company's rate case, Case No. U-16472, in arguing that such revenues should be excluded under the RDM at issue in that case.

Mr. Stanczak opposed Staff's proposed alternative to reconciling based on average use per customer, arguing that Staff's use of total class revenue conflicts with the Commission's RDM decision in Case No. U-15768. If this decision does not require a reconciliation based on average use per customer, he recommended instead that the Commission use an "E.O. only" RDM in this case. He referred to Ms. Tuckfield's rebuttal testimony for the reconciliation of this proposed RDM in Exhibit A-9.

Mr. Stanczak also referenced Ms. Tuckfield's rebuttal calculations, presented in Exhibit A-8, revising Staff's numbers in Exhibit S-6 to more closely reflect the company's case by combining primary and secondary customers, including the "other" customer revenues, and adding back a separate choice class.

Addressing Mr. Selecky's testimony, Mr. Stanczak also took issue with his objection to the company's combination of secondary and primary classes, contending that the Commission left open the issue for resolution in this reconciliation, and reiterating his opinion, discussed above, that fixed-charge revenue should be excluded.

Ms. Tuckfield further testified on rebuttal to the calculations presented in Exhibit A-8, as noted above, and to the calculations presented in Exhibit A-9.²⁰ She explained that the Exhibit A-9 “E.O. only” RDM is illustrative, to demonstrate that the mechanism would yield a surcharge owed to the company. As she described it, the calculation begins with the applicable base rate determined in Case No. U-15768 and multiplies it by the variance between the Energy Optimization sales reductions. She acknowledged in presenting this calculation that it “does not attempt to reconcile all of the nuances that need to be considered prior to implementing such a mechanism.”²¹

In her rebuttal, Ms. Tuckfield also addressed Mr. Selecky’s use of FERC Form-1 data in his analysis, contending that Mr. Selecky improperly used calendar-year data for 2009 and 2010, while the reconciliation at issue here is to compare the actual results over the time period February 1, 2010 through January 31, 2011, with the rate case assumptions.

Ms. Holmes focused her rebuttal testimony on Staff’s proposal to set a “residual refund limit.”²² She testified that under Staff’s proposal, the refund process could be drawn out potentially indefinitely, and that the proposal does not address the possibility of over-refunds. She reiterated the company’s proposal, to include the residual balance from one year as part of the reconciliation filed the following year, and asserted that this proposal is consistent with the treatment of other Detroit Edison trackers subject to reconciliation.

²⁰ Ms. Tuckfield’s rebuttal testimony is transcribed at 2 Tr 34-39.

²¹ See 2 Tr 39.

²² Ms. Holmes’s rebuttal testimony is transcribed at 2 Tr 53-57.

Ms. Holmes also testified to inconsistencies in Staff's calculations of lighting, metal melting, and process heating rate schedules. She testified that Staff's calculations include both primary and secondary electric metal melting and electric process heating sales and customers in the primary class in determining the base rate case values. She further testified that the residential and secondary "D-9 Outdoor Protective Lighting Customer" sales were excluded from the calculations in Exhibits S-1 and S-2, but not from Staff's other exhibits.

Briefs

In their briefs, the parties generally adopt the positions presented by their witnesses. Detroit Edison argues in support of the calculations presented in its Exhibits A-1, A-2 and A-3, and presents as Attachment A to its reply brief charts showing adjustments to Staff's case. Staff argues in support of the calculations presented in its Exhibit S-5, and in the alternative, Exhibit S-3, with the range of calculations presented by Staff shown in Exhibit S-8. ABATE argues in support of the calculations presented in its Exhibit AB-1 through AB-4. Energy Michigan generally supports Staff's analysis, including Staff's proposed "average exposure" method.

The positions of the parties are addressed in more detail in the discussion section below.

III.

DISCUSSION

The dispute whether to use the “average use” method advocated by the company, or the “average exposure” method proposed by Staff, is addressed in subsection A. The revenues, sales, and customer numbers that should be reconciled in this proceeding are addressed in subsection B. Subsection C addresses disputes over customer groupings, while subsection D addresses data inconsistencies and subsection E addresses refund procedures.

A. Average use method vs. average exposure method

The first question to be resolved is the methodological question whether the reconciliation should be based on a comparison of the average use per customer over the reconciliation period compared to the rate case assumptions, or on the basis of sales over the reconciliation period compared to the rate case projections. Although Staff presented both methods, Staff advocates use of the sales-based method, named the “actual exposure” method because it reflects the company’s exposure to lost sales over the reconciliation period.

To Staff, the actual exposure method is preferable because it avoids disputes about customer groupings, which can significantly influence the results under the average use method advocated by Detroit Edison.²³ Detroit Edison argues that its proposed average use method most closely matches the Commission’s decision in

²³ See Staff initial brief, pages 16-17; Revere testimony discussed in section II.
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Case No. U-15768. Energy Michigan also cites the Commission's recent decision in Case No. U-16472, revising Detroit Edison's RDM.

In adopting the RDM in Case No. U-15768, the Commission provided the following formula:

The pilot decoupling mechanism shall be symmetrical and shall reconcile non-fuel/non-purchase power revenue. In the utility's annual decoupling mechanism reconciliation proceeding, which shall be filed on or before May 1 of each year, Detroit Edison's actual (non-weather adjusted) sales per customer during the 12-month period from February 1 to January 31 will be compared with the base sales per customer level amount established in this case. Any sales per customer difference will be multiplied by the non-fuel revenue per kWh in order to obtain the non-fuel revenue difference per customer. The, the non-fuel revenue difference per customer shall be multiplied by the average monthly number of customers for the 12-month period covered in the reconciliation to obtain the resulting non-fuel revenue difference due to any changes in consumption per customer. Any overage or shortfall shall be credited or surcharged on a per kWh basis until that overage or shortfall is recovered.²⁴

Based on a review of the Commission's decision in Case No. U-15768, this PFD concludes that the Commission expressly provided for a comparison of average use per customer for this reconciliation. Not only is the language quoted above specific in identifying "sales per customer", but the Commission in that order rejected Detroit Edison's request for a revenue decoupling mechanism based on sales.²⁵

B. Revenues

The second issue that requires resolution is a determination of the rates and revenues that should be subject to reconciliation under the RDM. The disputed

²⁴ See January 11, 2010 order in Case No. U-15768, page 67.

²⁵ See January 11, 2010 order in Case No. U-15768, page 62 ("[T]he company proposed an RDM that addresses all losses in sales.")

revenues include fixed-charge revenues, revenues from special contract customers, and revenues categorized as “other” revenues from lighting customers, and are discussed in subsections 1 through 3 below.

1. Fixed-charge revenues

The company has proposed to reconcile its RDM using only revenues from rates that are assessed per kWh, excluding fixed-charge revenues from demand and customer charges. Detroit Edison argues that it properly interprets the Commission order as excluding fixed-charge revenues, citing a phrase from order referring to “non-fuel revenue per kWh”.²⁶ Further, it argues that key policy considerations support excluding fixed-charge revenues, because Energy Optimization programs in the short run will have little or no impact on demand or customer charge revenues. To Detroit Edison, Staff’s presentation of alternative calculations indicates that Staff is uncertain of its position.

Staff, ABATE, and Energy Michigan argue that the fixed-charge revenues should be included in the reconciliation. To Staff, the RDM is based on non-fuel revenue, and fixed charges are non-fuel revenue.²⁷ Staff argues that both Staff and Consumers Energy agree on this in Case No. U-16566, the reconciliation of Consumers Energy’s RDM that was the model for the RDM adopted for Detroit Edison in Case No. U-15768. ABATE, citing Mr. Selecky’s testimony, generally agrees with Staff. Energy Michigan also cites Mr. Selecky’s testimony, and notes that in Detroit Edison’s most recent rate

²⁶ Detroit Edison notes but does not address exclusion of the fixed-charge revenues in its initial brief, but in its reply brief at pages 15-17; and see Stanczak rebuttal testimony, 2 Tr 75.

²⁷ See Staff initial brief, pages 10-14; Revere testimony discussed above.

case, the Commission adopted an RDM that includes customer demand charges but not individual customer charge revenues.²⁸

As noted above, Detroit Edison relies on the Commission's use of the phrase "revenue per kWh" in its Case No. U-15768 order establishing the decoupling mechanism. Reviewing the Commission's order in its entirety, however, this PFD concludes that the Commission broadly directed that all non-fuel revenues be subject to reconciliation under the RDM. The instructions quoted above in subsection A state: "The pilot decoupling mechanism shall be symmetrical and shall reconcile non-fuel/non-purchase power revenue." Although the Commission subsequently refers to "the non-fuel revenue per kWh", it is in the context of describing a calculation, in which kWh would be the denominator of a fraction applied to the difference in sales per customer. Also, the phrase "the non-fuel revenue" in the sentence Detroit Edison relies on appears to refer to "the non-fuel/non-purchase power revenue" identified in the first sentence of the paragraph. Had the Commission intended "the non-fuel revenue per kWh" to limit the revenues subject to reconciliation to revenues from per kWh charges, the Commission would likely have included the further limitation "non purchase power" in the same phrase. Thus, this PFD concludes that the Commission did not intend "per kWh" in this sentence to restrict the revenues subject to reconciliation.²⁹

Although Detroit Edison argues that Energy Optimization would not reduce fixed-charge revenues, at least in the short run, this PFD concludes that the broad formula described in the Commission's order is controlling. Had the Commission intended to

²⁸ See Energy Michigan initial brief, page 6, citing the Commission's October 20, 2011 order in Case No. U-16472, page 87.

²⁹ Note, however, all parties agree that surcharge revenues should be excluded from the reconciliation.

exclude fixed-charge revenues from the reconciliation, it would have made this intention clear. That Detroit Edison initially interpreted the RDM to include fixed-charge revenues is clear from the portion of the Commission order discussing Detroit Edison's objections to an RDM similar to the one adopted for Consumers Energy in Case No. U-15645:

Detroit Edison further argues that the Commission should refrain from imposing on the company the same pilot decoupling program authorized for Consumers. Detroit Edison contends that the program is flawed because it is based upon average customer usage. The company out that, under that program, if total sales decline (for example, as a result of manufacturing plant shutdowns) *total revenues* would decrease, but as long as the average per customer had not changes, the revenue decoupling mechanism would not recognize the loss of revenue; nor would customers reap any benefits if the situation were reversed. Detroit Edison maintains that this program design fails to accomplish the fundamental disconnection of utility revenue from energy sales that is the hallmark of decoupling.³⁰

In discussing this method, the company focused on “total revenues”, rather than per kWh energy charges.

2. Large contract customers

Staff also recommends excluding revenues and associated sales under special contracts, or “large customer contracts”, because the Commission did not set the rates for these contracts in the rate case establishing the RDM. Detroit Edison, ABATE, and Energy Michigan do not expressly address this Staff adjustment.

In its December 23, 2008 decision in Case No. U-15244, the Commission rejected requests to eliminate special contracts, and explained:

The Commission is not persuaded that special contracts for electric service are no longer useful, or that the Legislature intended to eliminate

³⁰ January 11, 2011 order, Case No. U-15768, page 63 (emphasis added).
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them. Special contracts, which are reviewed carefully by the Commission, continue to serve an important purpose by allowing the utility to offer non-tariffed terms and conditions of service in cases where it is warranted.³¹

Because the special contract rates are best characterized as “non-tariffed”, and the special contract rates are negotiated between the company and its customers, Staff’s recommendation to exclude special contract revenues from the RDM reconciliation is reasonable and should be adopted.

3. “Other” customers

Staff also argues that the revenue from certain customers, categorized as “other” customers but including principally lighting customers, should not be subject to reconciliation under the RDM because the company has little ability through energy optimization to influence the per customer usage of these customers. The company disagrees, relying on the rebuttal testimony of Mr. Stanczak as discussed above, asserting that the company does undertake efforts to help lighting customers reduce their consumption by using energy efficient lighting.³²

Referring to the Commission’s January 11, 2010 rate case order quoted above, the Commission generally identified “non-fuel/non purchase power revenue” as subject to the RDM, and broadly stated the formula for reconciliation of the RDM. Nonetheless, the Commission directed the utility’s reconciliation filing to include “how the mechanism will apply to customer groups, customer classes, or a combination thereof,”³³ indicating that the Commission intended some further deliberation as to how the mechanism

³¹ See December 23, 2008 order, page 85.

³² Detroit Edison does not discuss the “Other” rate schedules in its initial brief, but in its reply brief at pages 12-13; see also Stanczak, 2 Tr 74-75; Tuckfield, 2 Tr 36-37.

³³ See January 11, 2010 order, page 68.

would apply to categories of customers. The Commission subsequently clarified this decision in its April 13, 2010 order on rehearing, indicating that the reconciliation would determine “whether adjustments will be made on a total company or per rate class basis.”³⁴ But no party interprets that subsequent language as a determination that only two options would be available in the reconciliation, all customers together, or all rate classes individually.

Mr. Revere testified that the lighting rate schedules were not appropriate for the RDM. While Mr. Stanczak testified that the company does undertake efforts to help customers improve the efficiency of the lighting equipment used, he did not provide any additional explanation why the rate schedules are appropriate for the RDM. A review of the Commission’s decision in Case No. U-15768 shows that the Commission required Detroit Edison to undertake efforts to help lighting customers improve their efficiency, through negotiations:

[T]he company’s proposal should be expanded to include appropriate tariff provisions for the provision of both company-owned and customer-owned unmetered street lighting, area lighting, and traffic signal services based on emerging LED technologies. To address this situation, the Commission finds that Detroit Edison should be directed to include in its tariffs provisions to accommodate customers having or seeking to use LED technologies for unmetered street lighting, area lighting, and traffic signal services.³⁵

A review of the tariffs approved in that case shows that the company is able to negotiate charges with customers seeking to use these technologies:

EXPERIMENTAL EMERGING LIGHTING TECHNOLOGY PROVISION:
Available on an optional basis to customers desiring Municipal Street Lighting Service using emerging lighting technologies not otherwise

³⁴ See April 13, 2010 order, page 2.

³⁵ See January 11, 2010 order, Case No. U-15768, page 79.

offered through the standard tariff. The Company will own, operate, and maintain the emerging lighting technology equipment and the Customer will provide a contribution in aid of construction equal to the amount by which the investment exceeds three times the estimated annual revenue. Emerging lighting technologies and Customer participation must be approved by the Company and the energy and maintenance benefits for each project will be calculated based on predicted energy and luminaire life. The Company and the Customer will mutually agree on all prices, terms, and conditions for the service under this provision, evidenced by signed agreement.³⁶

A further review of the tariffs approved in that case shows that many of the lighting rates are based on charges per lamp, or are based on capacity rather than metered usage.³⁷

In response to Staff's recommendation, Detroit Edison did not explain what specific "other" rate schedules should be included, or how the revenue and sales (kWh) were determined for these customers. For these reasons, this PFD recommends that the Commission adopt Staff's recommendation to exclude the "other" rate schedules from the RDM reconciliation.

C. Customer groupings

Another significant area of dispute between the parties involves the grouping of customers under the RDM. Both the company and Staff agree that the results of the reconciliation are heavily dependant on the grouping of customers used in the calculations. The disputes arise over whether primary and secondary customers should be grouped together, and whether choice customers should be treated as a separate group.

³⁶ See January 25, 2010 order, Case No. U-15768, Attachment B, Second Revised Sheet No. D-49.00.

³⁷ See, e.g., January 25, 2010 order, Attachment B, Second Revised Sheets No. D-49.00-D.55.00.

1. Combined or separate primary and secondary class groupings

Relying on Mr. Stanczak's testimony, discussed above, Detroit Edison argues that all full-service commercial and industrial customers should be combined into a single class for purposes of the reconciliation. Mr. Stanczak testified that there were 239 customer migrations from the primary to secondary class between the end of the historical test year (June 2008) and June 2010. His Exhibit A-7 lists these customers, along with the Account Managers' statements of the reason for the migration. In his view, the "unprecedented" migration artificially increased the average use per customer for both classes.³⁸

Although the usage data is not directly discussed in the company's testimony, Exhibit A-8, which Ms. Tuckfield prepared in conjunction with Mr. Stanczak's rebuttal testimony, presents a "migration" adjustment based on usage of 736 MWh per migrating customer.³⁹ The company's "migration adjustment" reduces the company's refund obligation to commercial secondary customers in comparison to Staff's Exhibit S-6 to \$31.5 million, and changes the \$9.5 million refund in Exhibit S-6 to a \$7.5 million surcharge. In its reply brief, the company characterizes the 736 MWh usage amount as "insignificant" in comparison to the average primary customer usage.

³⁸ See Stanczak, 2 Tr 66.

³⁹ See Exhibit A-8, pages 5-8; Tuckfield, 2 Tr 37-38; Stanczak, 2 Tr 70-74, 80-82. Page 7 of Exhibit A-8 shows an adjustment increasing the U-15768 base sales to secondary customers of 176,000 MWh and 239 customers, and page 8 shows a corresponding adjustment decreasing the U-15768 base sales to primary customers by the same MWh and customer numbers.

Detroit Edison presents, as Attachment A to its reply brief, additional calculations to illustrate its arguments regarding the migration adjustment.⁴⁰ In this attachment, Detroit Edison uses its migration adjustment to adjust the calculations presented in Staff's Exhibit S-5, reflecting Staff's average use method with fixed-charge revenues included. Detroit Edison argues that its migration-adjusted rate case base primary customer average usage amount of 6,417 MWh "is significantly more in line with" the actual average usage of 6,184 MWh than the unadjusted rate case base primary customer average usage of 5,896 MWh.⁴¹

Staff relies on Mr. Revere's testimony, discussed above, to support its recommendation to group customers in line with the classes used in the cost of service study. Staff argues that the company did not establish that the migration had the claimed effect on the average use per customer, and argues that the total sales for both the primary and secondary class increased.⁴² To Staff, the overall increase in the primary class sales contradicts the company's assertion that a migration adjustment due to the economic downturn is warranted: "While certain customers may have been reducing operations, it is obvious from the increase in total sales for the Primary class as a whole that other customers were either coming onto the system or increasing operations."⁴³

Energy Michigan supports Staff's position, and cites the Commission's October 20, 2011 order in Case No. U-16472, adopting a similar grouping of customers for the

⁴⁰ In Attachment A, a "migration adjustment" similar to the one presented in Exhibit A-8 is presented, but this one based on Staff's Exhibit S-5, which contains the fixed-charge revenues.

⁴¹ See generally, Detroit Edison reply brief at pages 7-12, and particularly, page 10 and Attachment A.

⁴² See 2 Tr 110-111.

⁴³ See Staff brief at 6-7.

RDM established in that case.⁴⁴ ABATE, relying on Mr. Selecky's testimony, argues that Detroit Edison's combination of all full-service commercial and industrial customers should be rejected, but supports Mr. Selecky's presentation of the total refund due to combined full-service commercial and industrial customer group of \$7.2 million, as shown in Exhibit AB-3.⁴⁵

Since all parties cite the Commission's decisions in Case No. U-15768, it is appropriate to review the provisions of these decisions. In its January 11, 2010 order, the Commission stated:

The utility's annual May 1 filing shall include all testimony and exhibits necessary for the reconciliation proceeding, including how the mechanism will apply to customer groups, customer classes, or a combination thereof.⁴⁶

But in the previous paragraph of that same order, the Commission had also stated: "This mechanism shall be applied separately for each customer class."⁴⁷ Energy Michigan, which had argued in that case for a total-company-based reconciliation, sought rehearing of the Commission's order. Granting rehearing and clarifying its January 11, 2010 order, the Commission's April 13, 2010 order held:

The Commission clarifies the order to state that the issue of whether [future surcharge] adjustments will be made on a total company or per rate class basis will be decided in the first decoupling reconciliation proceeding.⁴⁸

Thus, the Commission reserved at least the question whether the RDM should be applied on a total company or per rate class basis for this proceeding. No party has

⁴⁴ See Energy Michigan brief at 5, reply brief at 2, 6-8.

⁴⁵ Mr. Selecky relied on the FERC Form 1 data to conclude that the entirety of the refund to the combined group should go to the industrial customers. 2 Tr 98.

⁴⁶ See January 11, 2010 order, page 68.

⁴⁷ See January 11, 2010 order, page 67.

⁴⁸ See April 13, 2010 order, page 3.

argued that the Commission's language "total company or per rate class basis" expressly forecloses the hybrid customer grouping proposed by Detroit Edison. Nonetheless, this PFD recommends that the Commission adopt Staff's proposed rate class grouping, applying the mechanism separately to residential, secondary, and primary customers. (Whether choice customers should be treated separately is addressed in subsection 2 below.)

Accepting Mr. Stanczak's testimony that 239 customers migrated from the primary to the secondary rate class between the end of the historical test year ending June 2008 and June 2010, this PFD finds that fact insufficient to justify combining the secondary and primary rate classes for purposes of applying the RDM. In Case No. U-15768, the company's projections of per class sales and customers were made after the end of that historical test year. There is no evidence on this record how much of the customer migration Mr. Stanczak identified was or could have been included in the company's forecasts. Note that in Case No. U-15768, Detroit Edison represented to the Commission that it has an excellent long-term record of forecast accuracy.⁴⁹ Mr. Stanczak further attributes the "migration" to an economic downturn, but an economic downturn was considered in the parties' projections from the historical test year.⁵⁰ A review of Exhibit A-7 shows, for example, that several of the identified migrations were new customers, and several were attributable to plants that had ceased manufacturing operations due to bankruptcy, with no indication when the company first learned of the bankruptcy.

⁴⁹ See January 11, 2010 order, page 25.

⁵⁰ See January 11, 2010 order, pages 23-28

Detroit Edison summarizes Attachment A to its reply brief in a chart on page 10 of its reply brief. The chart starts with the rate case base customer count of 2,605 for the primary class after adjustment for choice migration. From this count, Detroit Edison subtracts the 239 primary-to-secondary migrations to get an adjusted rate case base of 2,366 customers, which can be compared to the actual reconciliation period average customer count of 2,571. Even if Detroit Edison's rate case forecast assumed that all of the 239 migrating customers would remain primary customers, under its analysis the primary class would have also gained an additional 205 customers. This supports Staff's argument that other customers were coming onto the system, and that many factors impact class usage.

Because Detroit Edison has not established the extent to which any of the identified migrations were considered in the rate case forecast, or analyzed other factors leading to the difference between the rate case forecast and actual results, its rationale for combining the two customer classes with different usage patterns appears arbitrary.

Nor is the company's "migration adjustment" supported on this record. In that adjustment, the company adjusts the rate case base use per customer assumptions for the primary and secondary classes by the amount of 736 MWh per customer. As mentioned above, none of the witnesses explicitly discussed this usage figure, but it appears to represent the actual average usage during the reconciliation period of the customers identified as the migrating customers. There is no comparable information in the record as to the projected usage of these customers, or their predecessors, underlying the rate case projections. Because the company has not claimed or

established that the migrations, or even some portion of them, were excluded from the company's forecasting, it appears inappropriate to adjust the rate case sales-per-customer base projections as the company proposes in its Exhibit A-8 and Attachment A. Absent a link to the rate case forecast, the proposed migration adjustment could significantly overcorrect for any error in that forecast.

2. Choice

Staff and the company also dispute whether the RDM should be applied separately to choice customers. In its January 11, 2010 order in Case No. U-15768, the Commission directed the company to reflect losses due to choice sales in its CIM, and not as part of the RDM.⁵¹ Recognizing this, as noted above, the company proposed an adjustment to the rate case sales data used in the reconciliation to reflect choice sales/migration.⁵² To reconcile the power supply revenues, the company reduced the rate case base sales for the full service categories by the increase in choice sales over the rate case choice sales forecast, and reduced the rate case base number of full service customers by the increase in choice customers over the rate case choice forecast. No party opposes the company's adjustment, and agrees that the excluded sales would be addressed by the CIM.

To reconcile the distribution revenues, however, the company separately applies the average use per customer method for residential, commercial secondary, and

⁵¹ See January 11, 2010 order, page 69.

⁵² See Exhibits A-1, A-2 and A-3, columns (c), (d) and (e).

commercial and industrial primary choice customers.⁵³ Staff argued that the power supply adjustment alone is not sufficient to remove the effects of choice migration from the RDM reconciliation. Thus, Staff included choice customers within the residential, secondary, and primary customer classes for purposes of reconciling the distribution revenues, as shown in Exhibits S-1 through S-8. Mr. Revere testified that the calculation is most appropriately carried out for each class as a whole:

If separate non-fuel rates were utilized for full-service and choice customers, this would have the effect of reimbursing the company for lost distribution revenues that were due to choice migration. Staff maintains that the pilot RDM is not intended to compensate the company for customers switching to choice; therefore, the ROA customers need to be rolled into their proper rate class.⁵⁴

In his rebuttal testimony, Mr. Stanczak disputed Staff's analysis, contending that the company's calculations effectively prevent it from recovering lost distribution revenues that occur due to choice migration because they use the change in average use per customer and treat choice as a separate class.⁵⁵ In its briefs, the company also argues that it is necessary to separate the choice and full-service customers for the distribution piece of the reconciliation, because the choice customers pay cost-based distribution rates that do not reflect the impact of the residential subsidy.⁵⁶ Detroit Edison further argues that by treating choice and full-service customers as separate classes, it cannot recover lost distribution revenues that occur due to choice migration.

⁵³ See Tuckfield, 2 Tr 30-32, and Exhibit A-3. Exhibit A-3 shows calculations for each of these customer classes, but a resulting asset/liability is presented only for the commercial secondary customers. The company did not explain this result, but it appears that no asset/liability can be determined for the residential choice customers because there were no rate case distribution sales forecast for this category, and no asset/liability can be computed for the primary customers because the company has excluded all fixed-charge and surcharge revenue from the calculation as shown in Exhibit A-4.

⁵⁴ 2 Tr 114.

⁵⁵ 2 Tr 71-72.

⁵⁶ Detroit Edison brief, pages 7-8; reply brief, pages 13-15.

In its brief, Staff responds to Mr. Stanczak's testimony by explaining that if non-fuel distribution revenues are calculated separately for full-service and choice customers, and a customer switches from full service to choice, any change in the average usage due to this migration would be multiplied by the full-service non-fuel rate, which is higher than the choice rate.⁵⁷ Staff acknowledges that with the average use per customer method, this could be either to the detriment of the company or the customers.⁵⁸ Energy Michigan supports Staff's analysis, while ABATE's approach as reflected in Exhibit AB-4 mirrors the company's treatment of the choice customers as a separate class.

This PFD finds that Detroit Edison has failed to establish that its proposal to reconcile choice distribution revenues per customer separately from full service distribution revenues per customer is reasonable or justifies the added complexity. In contrast, Staff's approach ensures the company receives the average distribution revenue expected from each customer, by class. There is no dispute that the full-service distribution rates are higher than choice distribution rates. Staff's argument is persuasive that preserving this average revenue per customer prevents the utility from recovering surcharge revenue lost through greater than forecast choice migration or forfeiting surcharge revenue gained from less than forecast choice migration.

⁵⁷ See Staff brief, pages 11-13.

⁵⁸ Staff also stresses that under its preferred sales-based methodology, it is only the change in sales that influences the result.

D. Data inconsistencies

Detroit Edison also challenges the data used in Staff's and ABATE's analysis.⁵⁹

As noted above, Mr. Selecky relied on FERC Form-1 data to conclude that sales per customer for the commercial and other classes decreased, while sales per customer for the industrial group increased by 1,116 MWh. In its rebuttal testimony, Detroit Edison argued that the one-month difference in the time period of the data compared to the time period covered by this reconciliation makes his analysis unreliable. Because this PFD recommends that the Commission follow Staff's average use per customer method, it is not necessary to resolve this issue. Nonetheless, it is appropriate to note that Mr. Selecky relied on the FERC Form-1 data because he was unable to obtain data from Detroit Edison, and he testified that the one-month difference would not have a significant impact.⁶⁰

Ms. Holmes testified that Staff included Electric Metal Melting (Rate R1.1) and Electric Process Heating (Rate R1.2) customers, both secondary and primary, in the primary class to determine the rate case non-fuel rates, sales and customer assumptions,⁶¹ but included the secondary R1.1 and R1.2 actual sales in the secondary class.⁶² She testified: "Staff should be consistent in the grouping of customer classes to avoid unintentional impact on the calculation."⁶³

⁵⁹ In its rebuttal testimony, Detroit Edison also took issue with Mr. Selecky's use of FERC Form-1 data, but Detroit Edison does not address this in its briefs. ABATE does not address Detroit Edison's rebuttal testimony in its brief. See ABATE brief, pages 5-6.

⁶⁰ See 2 Tr 97.

⁶¹ See Exhibits S-1 and S-2, and Exhibit S-3, pages 2 and 3, line 2, and similar lines in subsequent exhibits.

⁶² See Exhibit S-3, pages 2 and 3, line 7, and similar lines in subsequent exhibits.

⁶³ See 2 Tr 57.

With regard to the “other” class, Ms. Holmes testified that the Outdoor Protective Lighting (Rate D9) customers are not reflected in the non-fuel revenue rates on Exhibits S-1 and S-2, but the sales for those customers are included in the rate case base data and actual annual sales on Staff’s other exhibits: “If Staff supports the sales to these customers being included, they should also be included in calculating the applicable rates.”⁶⁴ Detroit Edison did not provide the necessary data to make such corrections, however.

In its initial brief, Staff responds to Ms. Holmes’s testimony, asserting Staff inadvertently included the sales for D9 customers in its calculations, and indicates that if the Commission agrees to the exclusion of the “other” customer group, then these sales should be excluded. Regarding the R1.1 and R1.2 customers, Staff indicates that it intended to include all metal melting customers and sales in the primary class, consistent with the company’s treatment, and that:

Staff, through discussion with the Company, traced the issue back to the fact that the Company’s provided actual data recorded Secondary metal melting customers and sales with large general service customers and sales. Staff attempted to rectify the inconsistency, but the Company claimed it was unable to provide the necessary data. Staff recommends that the Commission order the Company to record its sales and customer data in such a way that this problem does not repeat itself in the next RDM case.⁶⁵

Because this PFD recommends that the Commission adopt Staff’s proposed class-based customer groupings for this reconciliation, and that the “other” category of customers be excluded from the reconciliation, and because the record does not clearly reflect the data necessary for these calculations, this PFD recommends that the

⁶⁴ See 2 Tr 57.

⁶⁵ See Staff brief, page 19.

Commission direct Detroit Edison to prepare and refile appropriate reconciliation calculations, to be consistent with the Commission's final decision on customer groupings. If the correct data is not available, Detroit Edison's revised filing should indicate why the data is not available, and provide the best alternative data with an indication as to its source.

As to Staff's recommendation that the Commission order the Company to record its sales and customer data in such a way that this problem does not exist, this PFD recognizes that the record in this case does not address the data concern discussed in Staff's brief. Nonetheless, this PFD notes that the Commission's order in Case No. U-15768 imposed reporting obligations on the company:

Detroit Edison shall file in this docket at least quarterly, actual sales data information by rate class. Detroit Edison shall also comply with any other reporting requirements as directed by the Staff.⁶⁶

And, the Commission further directed: "in each annual decoupling reconciliation application, Detroit Edison shall file data on its average per customer sales levels."⁶⁷ Moreover, the company acknowledges that it was aware of the potential significance of the choice of customer groupings for the reconciliation. Note, too, that Detroit Edison was able to determine the average per customer usage for the 239 customers identified as migrating from primary to secondary service, so the company appears to have some ability to produce data beyond the level presented in its filing in this case.

Should the company be unable to produce data sufficient to implement the Commission's final decision determining the appropriate customer groupings in this matter, the Commission can consider what further actions to take.

⁶⁶ See January 11, 2010 order, page 67.

⁶⁷ *Id.*, page 68.

E. Refund/surcharge procedure

Staff and Detroit Edison also dispute the appropriate procedures for reconciling residual balances, after the initial implementation of refunds and surcharges for the RDM. The company proposed that any residual balance be included as part of the following RDM reconciliation, unless the RDM is eliminated entirely, in which case Detroit Edison proposes that any residual balance be rolled into the company's annual PSCR reconciliation.⁶⁸

Staff proposed instead that a threshold "residual refund limit" be established such that once that amount owed by or to the company falls below that limit, the refund or surcharge would simply terminate. Detroit Edison objects to this approach, citing Ms. Holmes rebuttal testimony indicating that Staff's approach could require too many refund iterations. In its initial brief, Staff indicates that although it does not agree with the company's proposal to roll any residual amounts resulting from the initial refund/surcharges determined in this case into a subsequent RDM reconciliation, Staff remains flexible in setting the residual limits to accommodate some of the company's concerns. Because Staff is open to revising its position at least as to the calculation of the residual refund limit, this PFD declines to recommend that the Commission adopt any particular version of Staff's proposal. Instead, this PFD recommends that the Commission encourage the parties to continue to work on an alternative to the rolling reconciliation provided for in the company's proposal, but to adopt that proposal in the interim.

⁶⁸ See Holmes, 2 Tr 50.
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IV.

CONCLUSION

Based on the foregoing discussion and findings, this PFD recommends that the Commission require Detroit Edison to file tariff sheets and supporting calculations to implement refunds and surcharges in reconciliation of its RDM for the period January 31, 2010 through February 1, 2011 as follows:

1. The average use per customer method should be followed;
2. Separate calculations should be performed for power supply and for distribution revenue;
3. Separate calculations should be performed for each rate class, including the residential, secondary and primary classes;
4. Consistent with the Staff's proposal, choice customers, sales and revenues should be included within their respective class, but data used to reconcile power supply revenues should be adjusted to eliminate the effects of choice migration;
5. Consistent with Staff's proposal, the R1.1 and R1.2 customers, revenues, and sales should be included in the primary class;
6. Consistent with Staff's proposal, the large contract customers and "other" customers, sales and revenues (including Rate D9) should be excluded from the reconciliation;
7. Interest should be applied as proposed by Detroit Edison;

8. Refunds and surcharges resulting from the final calculation should be credited or recovered over a three-month period as recommended by Detroit Edison, with residual balances subject to reconciliation in the following RDM reconciliation, or the next PSCR reconciliation, as proposed by the company.

MICHIGAN ADMINISTRATIVE HEARING
SYSTEM
For the Michigan Public Service Commission

Sharon L. Feldman
Administrative Law Judge

February 6, 2012
Lansing, Michigan
drr